

**REPORT OF THE AUDIT OF THE
JACKSON COUNTY
SHERIFF'S SETTLEMENT - 2012 TAXES**

**For The Period
April 17, 2012 Through April 15, 2013**



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
JACKSON COUNTY
SHERIFF'S SETTLEMENT - 2012 TAXES**

**For The Period
April 17, 2012 Through April 15, 2013**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2012 Taxes for the Jackson County Sheriff for the period April 17, 2012 through April 15, 2013. We have issued a qualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$3,135,253 for the districts for 2012 taxes, retaining commissions of \$128,555 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,994,785 to the districts for 2012 taxes. Taxes of \$374 are due to the districts from the Sheriff and refunds of \$1,236 are due to the Sheriff from the taxing districts.

Report Comments:

- 2012-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts, Disbursements, And Reconciliations
- 2012-02 The Sheriff Should Strengthen Internal Controls Over Daily Checkout Procedures And Deposits Should Be Made Intact
- 2012-03 Reconciliation Procedures Should Be Performed To Ensure Adequate Monitoring Of Tax Receipts And Tax Disbursements
- 2012-04 The Sheriff Has A Known Deficit Of \$5,217 In His Official Tax Account
- 2012-05 The Sheriff Should Resolve Unsettled 2011 Tax Receivables And Liabilities
- 2012-06 The Sheriff Should Deposit Receipts Intact On A Daily Basis
- 2012-07 The Sheriff Should Distribute 10% Add-On Fees In Compliance With KRS 134.119(7)
- 2012-08 The Sheriff Should Ensure That Non-Sufficient Return (NSF) Checks Are Accounted For Properly
- 2012-09 The Sheriff Should Ensure Tax Receipts Are Placed In An Interest-Bearing Account
- 2012-10 The Sheriff Should Consult With The Department Of Revenue, County Attorney, And Jackson County School Board Regarding 2012 Tax Rate Set By The School

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable William O. Smith, Jackson County Judge/Executive
Honorable Denny Peyman, Jackson County Sheriff
Members of the Jackson County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Jackson County Sheriff's Settlement – 2012 Taxes for the period April 17, 2012 through April 15, 2013 – regulatory basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Sheriff, as of April 15, 2013, or changes in financial position or cash flows thereof for the year then ended.

Basis for Qualified Opinion

We were unable to obtain a response from the Jackson County Sheriff's external legal counsel to our request regarding a discussion and evaluation of pending litigation.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statement referred to above present fairly, in all material respects, the taxes charged, credited, and paid for the period April 17, 2012 through April 15, 2013 of the Jackson County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

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Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 20, 2014 on our consideration of the Jackson County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Jackson County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control over financial reporting and compliance.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2012-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts, Disbursements, And Reconciliations
- 2012-02 The Sheriff Should Strengthen Internal Controls Over Daily Checkout Procedures And Deposits Should Be Made Intact
- 2012-03 Reconciliation Procedures Should Be Performed To Ensure Adequate Monitoring Of Tax Receipts And Tax Disbursements
- 2012-04 The Sheriff Has A Known Deficit Of \$5,217 In His Official Tax Account
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- 2012-09 The Sheriff Should Ensure Tax Receipts Are Placed In An Interest-Bearing Account
- 2012-10 The Sheriff Should Consult With The Department Of Revenue, County Attorney, And Jackson County School Board Regarding 2012 Tax Rate Set By The School

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

June 20, 2014

JACKSON COUNTY
DENNY PEYMAN, SHERIFF
SHERIFF'S SETTLEMENT - 2012 TAXES

For The Period April 17, 2012 Through April 15, 2013

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 164,893	\$ 765,463	\$ 1,408,867	\$ 295,838
Tangible Personal Property	8,062	36,707	68,886	34,840
Fire Protection	2,268			
Franchise Taxes	41,119	187,754	354,963	
Additional Billings	342	1,568	2,929	1,026
Limestone, Sand and Mineral Reserves	150	694	1,281	269
Penalties	1,803	8,284	15,274	3,249
Adjusted to Sheriff's Receipt	(68)	(10)	(25)	(20)
Gross Chargeable to Sheriff	<u>218,569</u>	<u>1,000,460</u>	<u>1,852,175</u>	<u>335,202</u>
<u>Credits</u>				
Exonerations	1,579	7,309	13,496	2,892
Discounts	2,731	12,439	23,032	4,475
Delinquents:				
Real Estate	12,647	58,213	107,209	22,512
Tangible Personal Property	<u>153</u>	<u>700</u>	<u>1,313</u>	<u>453</u>
Total Credits	<u>17,110</u>	<u>78,661</u>	<u>145,050</u>	<u>30,332</u>
Taxes Collected	201,459	921,799	1,707,125	304,870
Less: Commissions *	<u>8,562</u>	<u>38,751</u>	<u>68,285</u>	<u>12,957</u>
Taxes Due	192,897	883,048	1,638,840	291,913
Taxes Paid	192,140	878,647	1,632,452	291,546
Refunds (Current and Prior Year)	<u>818</u>	<u>4,266</u>	<u>7,064</u>	<u>627</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Audit	<u>\$ (61)</u>	<u>\$ 135</u>	<u>\$ (676)</u>	<u>\$ (260)</u>

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

JACKSON COUNTY
DENNY PEYMAN, SHERIFF
SHERIFF'S SETTLEMENT - 2012 TAXES
For The Period April 17, 2012 Through April 15, 2013
(Continued)

* Commissions:

4.25% on \$ 1,258,072

4% on \$ 1,877,181

** Special Taxing Districts:

Library District \$ (110)

Health District (45)

Extension District (75)

Soil Conservation District (9)

Ambulance District 374

Due Districts or

(Refunds Due Sheriff) \$ 135

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2013

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Jackson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT
For The Period April 17, 2012 through April 15, 2013
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Jackson County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2013, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2012. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2013. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 31, 2012 through April 15, 2013.

Note 4. Sheriff's 10% Add-On Fee

The Jackson County Sheriff collected \$23,678 of 10% add-on fees allowed by KRS 134.119(7). As of June 20, 2014, the Sheriff owed \$23,678 in 10% add-on fees to his fee account.

JACKSON COUNTY
DENNY PEYMAN, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

For The Period April 17, 2012 Through April 15, 2013

Assets

Cash in Bank (All Tax Accounts)	\$	773	
Deposits in Transit		71,721	
Receivables		39,165	
Receivable Due:			
Ky State Treasurer	\$	260	
Jackson County Fiscal Court		61	
Jackson County Board of Education		676	
Library District		110	
Health District		45	
Extension District		75	
Soil Conservation District		9	
Return Check Due From 2013 Fee Account		636	1,872
Total Assets			\$ 113,531

Liabilities

Paid Obligations-			
Outstanding Checks	24,978		
Liabilities Paid After April 15, 2013	63,655		
Total Paid Obligations		88,633	
Unpaid Obligations-			
Other Taxing Districts-			
Ambulance	374		
Add-On Fees Due 2013 Fee Account	23,678		
Commissions Due 2013 Fee Account	5,442		
Due To 2011 Tax Account	621		
Total Unpaid Obligations		30,115	
Total Liabilities			118,748
Total Fund Deficit as of April 15, 2013			\$ (5,217)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William O. Smith, Jackson County Judge/Executive
Honorable Denny Peyman, Jackson County Sheriff
Members of the Jackson County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Jackson County Sheriff's Settlement - 2012 Taxes for the period April 17, 2012 through April 15, 2013 - regulatory basis, and the related notes to the financial statement and have issued our report thereon dated June 20, 2014. We issued a qualified opinion on the financial statement since we were unable to obtain a response from the entity's external legal counsel to our request regarding a discussion and evaluation of pending litigation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Jackson County Sheriff's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Jackson County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Jackson County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2012-01, 2012-02, and 2012-03 to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Jackson County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and are described in the accompanying comments and recommendations as items 2012-04, 2012-05, 2012-06, 2012-07, 2012-08, 2012-09, and 2012-10.

Sheriff's Responses to Findings

The Jackson County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

June 20, 2014

COMMENTS AND RECOMMENDATIONS

JACKSON COUNTY
DENNY PEYMAN, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 17, 2012 Through April 15, 2013

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2012-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Tax Receipts, Disbursements, And Reconciliations

The Sheriff's office lacks adequate segregation of duties over tax receipts, tax disbursements, and reconciliations of tax collections to bank deposits. During our review of internal control, we noted that one (1) individual is primarily responsible for most receipt, disbursement, and reconciliation functions, including opening incoming mail, receiving and recording cash, writing checks, reconciling tax collections to bank deposits, preparing bank deposits, preparing the daily checkout sheets and preparing the financial reports.

A limited budget places restrictions on the number of employees a Sheriff can hire. When faced with these types of restrictions, strong compensating controls should be in place to offset the lack of adequate segregation of duties. Proper segregation of duties, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting, while also protecting employees in the normal course of performing their responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should implement strong compensating controls including, but not limited to, the following:

- Recount cash at the end of each day and compare cash and checks collected to the tax collection report listing of cash and checks collected, daily checkout sheet, and deposit ticket. The Sheriff should initial the tax collection report, daily checkout sheet and deposit ticket to document agreement.
- Reconcile daily tax collection report to the receipts ledger and deposit ticket. The Sheriff should initial the daily tax collection report, receipts ledger and deposit ticket to document agreement.
- Reconcile monthly tax reports to receipts and disbursements ledgers. The Sheriff should initial the receipts and disbursements ledgers to document agreement.
- The Sheriff could examine checks prepared by the office manager and compare checks to the monthly tax reports, resolve any discrepancies, and document the review by initialing and dating the monthly tax reports.

Sheriff's Response: As Sheriff I tried my best to fulfill my responsibilities asked for in each area. Some days were harder than others because of the big work load during tax season. I have myself and one (1) other person in the office to try and fulfill all of these needs. I asked the County Judge Executive for more help, even part-time, but I was told if he had his way I wouldn't even have her. She was told if she worked over forty(40) hours a week she would be terminated, so by the end of the week it was usually me by myself to do all the requirements of collecting taxes. November alone we took in over two (2) million dollars that I had to account for.

JACKSON COUNTY
DENNY PEYMAN, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 17, 2012 Through April 15, 2013
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2012-02 The Sheriff Should Strengthen Internal Controls Over Daily Checkout Procedures And Deposits Should Be Made Intact

While performing the audit, we identified a material weakness related to the preparation of the daily deposits that suggests deposits were not made intact. The auditor noted:

- Multiple instances in which cash and checks from the tax processing software did not correspond to cash and checks from the bank deposit slip for the daily deposit. The total deposits for those days were not short.
- Computerized tax collection report for the deposit on April 16, 2013 listed checks collected as \$28,378. The bank deposit slip for this day listed checks as collected in the amount of \$29,004 for a difference of \$626. Cash collected per the tax collection report was \$626 less than what was listed on the bank deposit slip. The total bank deposit for the April 16 deposit was not short compared to the computerized tax collection report. Auditor identified a check in the amount of \$621 that had been written out of the 2011 tax account and included with this deposit, which would have accounted for most of the difference between the cash and checks collected per computerized tax collection report and bank deposit slip.
- Tax Collection Report for February 4, 2013 listed a bill had been paid by check in the amount of \$436. Auditor was unable to locate the check in the deposit detail received from the bank. The deposit was not short that day.
- A Franchise payment had been submitted by check in the amount of \$11,241, which included the two (2) percent discounted amount on January 18, 2013. The Sheriff had marked the bill paid in the computer tax software at the face amount of \$11,470 for a difference of \$229. The deposit for that day was not short.

Effective internal control procedures over daily deposits require that deposits be made intact and contain all cash and checks received for payments. The Department for Local Government was given the authority by KRS 68.210 to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the Instructional Guide for County Budget Preparation and State Local Finance Office Policy Manual requires that deposits be made daily and properly documented by a daily checkout sheet.

In addition, batches of receipts should agree to daily deposits and checkout sheets, and should be reconciled to computerized records. Reconciliation procedures should be sufficient to verify computerized records agree to manual records, such as triplicate receipts and daily deposits. We recommend the Sheriff strengthen internal controls over daily checkout procedures to ensure checkout sheets are prepared, and agree to manual and computerized records so that deposits are made intact.

Sheriff's Response: When the Sheriff's office takes in money there is a category in which it is listed either cash or check would be marked. Sometimes the wrong one is checked, which would make the overall balance correct but would throw off the cash and checks amount.

Auditor Reply: The Sheriff's response would not explain the situation in the second bullet above where a check was written from one of the Sheriff's prior year tax accounts to make the deposit match the amount shown as collected for the day per the system.

JACKSON COUNTY
DENNY PEYMAN, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 17, 2012 Through April 15, 2013
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2012-03 Reconciliation Procedures Should Be Performed To Ensure Adequate Monitoring Of Tax Receipts And Tax Disbursements

During the performance of various audit procedures, it was noted that reconciliation procedures were not performed to ensure tax receipts and tax disbursements were accounted for properly. The nature of tax collections is such that all amounts collected should be distributed monthly, thus, the account should zero out each month. During our review, it was noted that all amounts collected were not distributed each month. The Sheriff had not distributed the 10 percent add-on fees collected during February, March, and April. The Sheriff also had not distributed March and April commissions due to the fee account.

We recommend the Sheriff ensure the tax account is reconciled monthly. In performing this reconciliation, we further recommend that at the end of each month, the total collections per the tax collection system are compared to the total deposits per the bank statement to ensure all disbursements written for that month agree to the total collections for the month, thus, zeroing out the tax account each month. By performing these reconciliation procedures, this will help eliminate any surplus or deficit.

We recommend the Sheriff ensure the tax account is reconciled monthly. In performing this reconciliation, we further recommend that at the end of each month, the total collections per the tax collection system are compared to the total deposits per the bank statement to ensure all disbursements written for that month agree to the total collections for the month, thus, zeroing out the tax account each month. By performing these reconciliation procedures, this will help eliminate any surplus or deficit.

Sheriff's Response: With limited help and limited hours, this was impossible to do.

STATE LAWS AND REGULATIONS:

2012-04 The Sheriff Has A Known Deficit Of \$5,217 In His Official Tax Account

Based upon audit procedures, the Sheriff has a known deficit of \$5,217 in his official 2012 tax account. As collector of property taxes, the Sheriff assumes full responsibility for all tax collections and complete distribution of these collections to the proper taxing districts. Internal control procedures were not designed to detect discrepancies in daily and monthly accounting records, reconciliations of manual records to computerized records were not performed, and deposits do not appear to have been made intact.

In order to properly distribute 2012 tax collections, we recommend the Sheriff eliminate the deficit in the 2012 tax account with a deposit of \$5,217 from personal funds. The Sheriff should also settle other refunds and payments. We further recommend the Sheriff immediately implement controls to ensure tax collections are processed in a manner that produces reliable accounting records. These controls should include timely reconciliations of manual records to computerized records and depositing daily tax collections intact.

Sheriff's Response: Once I have collected the monies owed to me from districts, it will be deposited into the 2012 tax account, which should bring that account current to pay out the balance.

JACKSON COUNTY
DENNY PEYMAN, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 17, 2012 Through April 15, 2013
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2012-04 The Sheriff Has A Known Deficit Of \$5,217 In His Official Tax Account (Continued)

Auditor Reply: It will take collecting monies owed from the districts as well as the Sheriff's deposit of personal funds in the amount of \$5,217 to bring the account current.

2012-05 The Sheriff Should Resolve Unsettled 2011 Tax Receivables And Liabilities

Follow-up procedures determined 2011 tax receivables and liabilities have not been properly settled.

Assets

Cash in Bank (All Tax Accounts)		\$ 4,661
Receivables:		
Commissions Due From 2011 Fee Account	19,265	
School Settlement	425	
Due From 2012 Tax Account	<u>621</u>	<u>20,311</u>
Total Assets		24,972

Liabilities

Paid Obligations-		
Liabilities	<u>\$ 635</u>	
Total Paid Obligations		635
Unpaid Obligations-		
Payment Made To Kentucky State Treasurer Due To 2012 Fee Account	1,544	
Add-On Fees Due 2012 Fee Account	12,090	
Commissions Due 2012 Fee Account	9,654	
Franchise Payment Paid To The School - Due To 2012 Fee Account	1,008	
School Commission for June Franchise Due To 2012 Tax Account	<u>41</u>	
Total Unpaid Obligations		<u>24,337</u>
Total Liabilities		<u>24,972</u>
Total Fund Balance as of April 15, 2013		<u>\$ 0</u>

We recommend the Sheriff settle the 2011 tax account by collecting all receivables due the 2011 tax account and paying all liabilities owed.

Sheriff's Response: We are doing all we can to collect receivables owed to the Sheriff's office to be able to pay the liabilities owed from the 2011 tax account.

JACKSON COUNTY
DENNY PEYMAN, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 17, 2012 Through April 15, 2013
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2012-06 The Sheriff Should Deposit Receipts Intact On A Daily Basis

During the course of the audit, we noted that deposits were not made in a timely manner. Our review indicated twenty-four (24) deposits that did not clear the bank within three (3) business days. In addition, the auditor noted that one (1) deposit took over a month to clear the bank. During our test of daily receipts it was noted that the first deposit was started on January 29, 2013 and closed on February 1, 2013 totaling \$49,795, clearing the bank on February 11, 2013. The second deposit tested was started on February 4, 2013 and closed on February 8, 2013 totaling \$30,853, clearing the bank on February 25, 2013. The auditor also noted penalties totaling \$87 were charged due to instances of the account being overdrawn.

The Department for Local Government (DLG) was given the authority by KRS 68.210 to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual require that deposits be made daily. Additionally, the practice of making daily deposits reduces the risk of misappropriation of cash, which is the asset most subject to possible theft. Also, when deposits are not made timely, the risk that the bank account can be overdrawn is increased. We recommend the Sheriff immediately implement controls over the deposit process to assure deposits are made daily to comply with KRS 68.210.

Sheriff's Response: I have procedures ready to be put in place to do daily deposits, however the constraints put on the Sheriff's office by the Fiscal Court made this task virtually impossible.

2012-07 The Sheriff Should Distribute 10% Add-On Fees In Compliance With KRS 134.119(7)

During testing of 10% add-on fees, auditor noted that the Sheriff had collected 10% add-on fees totaling \$6,895 during February 2013, \$11,716 during March 2013, and \$5,066 during April 2013. Add-on fees totaling \$23,677 should have been transferred to the fee account. However; the Sheriff did not distribute the 10% add-on fees to his fee account.

KRS 134.119(7) requires the Sheriff shall be entitled to an amount equal to ten percent (10%) of the total taxes due plus ten percent (10%) of the ten percent (10%) penalty for all delinquent taxes. This fee shall be added to the total amount due, and shall be paid by the person paying the tax claim if payment is made to the Sheriff. We recommend that the Sheriff comply with KRS 134.119(7), and distribute all 10% add-on fees collected to his fee account in a timely manner.

Sheriff's Response: Policy and procedures put in place and implemented.

JACKSON COUNTY
 DENNY PEYMAN, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period April 17, 2012 Through April 15, 2013
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2012-08 The Sheriff Should Ensure That Non-Sufficient Return (NSF) Checks Are Accounted For Properly

During our review of NSF checks, Auditor identified five (5) return checks totaling \$4,026 that could not be traced to a redeposit into the 2012 tax account or the 2013 fee account. The tax bills were marked paid in the Sheriff's computerized tax software and would not have been turned over as delinquent to the County Clerk.

We recommend that the Sheriff account for non-sufficient return checks by preparing a separate deposit slip for these checks so they will be easily identified as being redeposited. If the Sheriff cannot collect a NSF check, the tax bill should be unpaid in the Sheriff's computerized tax software and turned over to the County Clerk as delinquent.

Sheriff's Response: The auditors explained process in which to account for NSF checks and now has been implemented into our procedures.

2012-09 The Sheriff Should Ensure Tax Receipts Are Placed In An Interest-Bearing Account

KRS 134.140 states that the Sheriff should place tax receipts in an interest-bearing account. It further states that the Sheriff should pay the school its portion of the interest earned, on a monthly basis. The Sheriff failed to use an interest-bearing account for 2012 taxes. We recommend the Sheriff comply with KRS 134.140 and begin depositing tax receipts into an interest-bearing bank account. The Sheriff should ensure that monthly interest payments are made to the school for its portion of interest earned.

Sheriff's Response: The Sheriff's office specifically requested that all tax monies be put in an interest-bearing account with the Jackson County Bank. To verify that the tax money was put in an interest-bearing account the Sheriff's office requested a consultation with the Jackson County Bank. We were told they would charge a fee of \$20 an hour. The fiscal court would not cover those costs.

2012-10 The Sheriff Should Consult With The Department Of Revenue, County Attorney, And Jackson County School Board Regarding 2012 Tax Rate Set By The School

When the Jackson County Board of Education approved taxes rates for 2012 taxes, they approved a tax rate of 58.1 for real estate taxes, 58.1 for tangible taxes, with exonerations of .6 percent. A tax rate of 58.1 was certified for the school and tax bills were generated using the 58.1 tax rate for real estate and tangible taxes. It was subsequently brought to the County Clerk's attention that the school board had intended to set a tax rate of 58.1 adding an exonerations of .6 percent to make a total rate 58.7 for real estate and tangible taxes. The County Clerk generated all Franchise bills using the 58.7 tax rate for the school. Because the school board had approved a tax rate of 58.1 for 2012 taxes, we will use this rate during the audit to determine what should be paid to the school during the 2012 tax season.

JACKSON COUNTY
DENNY PEYMAN, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 17, 2012 Through April 15, 2013
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2012-10 The Sheriff Should Consult With The Department Of Revenue, County Attorney, And Jackson
County School Board Regarding 2012 Tax Rate Set By The School (Continued)

We recommend that the Sheriff consult with the Department of Revenue, County Attorney, and the School Board for guidance in determining how this matter should be handled. If it is decided not to bill for the additional .6 percent exoneration rate for 2012 school taxes, the Sheriff should determine refunds due to Franchise companies as a result of using a school tax rate of 58.7 for real estate and tangible taxes on all Franchise bills for 2012 taxes.

Sheriff's Response: We are making contact with parties involved to make arrangements to compensate for differences.

